

March 19, 2007

The Honorable John Dingell  
Chairman  
Committee on Energy and Commerce  
U.S. House of Representatives  
Washington, DC 20515-6115

The Honorable Rick Boucher  
Chairman  
Subcommittee on Energy and Air Quality  
Committee on Energy and Commerce  
U.S. House of Representatives  
Washington, DC 20515-6115

Dear Chairmen Dingell and Boucher:

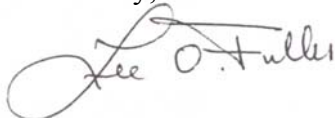
This material is submitted with regard to the February 27, 2007, letter requesting comments on the complex issue of climate change on behalf of the Independent Petroleum Association of America (IPAA). Independent producers are companies that explore for and develop oil and natural gas. Typically, they only operate in these aspects of the petroleum and natural gas industries. Independent producers are the backbone of American oil and natural gas production – developing 90 percent of all United States wells, producing 82 percent of American natural gas, producing 68 percent of American oil and holding 90 percent of Gulf of Mexico leases. Independents are the primary operators of America's marginal wells that represent about 80 percent of the nation's oil wells and produce about 50 percent of the amount of oil the United States imports from Saudi Arabia. There are approximately 7000 independent producers who are predominately small businesses employing an average of 12 employees each. Moreover, independent producers aggressively reinvest in the United States. A 2005 study found that the top 50 independent producers reinvested 150 percent of their United States cash flow back into American projects.

Consequently, IPAA's interest in the climate change deliberations focuses primarily on the impact various approaches may have on American oil and natural gas production. Oil and natural gas currently provide about 65 percent of America's energy supply and are projected to continue to do so in the foreseeable future. Even with potential changes in the energy supply mix to expand renewable fuels, improve efficiency and enhance conservation, oil and natural gas will continue to be a significant supply component. And, in the context of national energy security, the more American energy that can be produced, the less America is dependent on foreign, often unstable, sources of energy.

This submission will respond to those areas where IPAA has formulated positions or can identify specific concerns.

IPAA appreciates the opportunity to submit this material. If there are further questions that arise, please contact me at 202-857-4722 or [lfuller@ipaa.org](mailto:lfuller@ipaa.org).

Sincerely,



Lee O. Fuller  
Vice President, Government Relations

## Responses

1. *Please outline which issues should be addressed in the Committee's legislation, how you think they should be resolved, and your recommended timetable for Congressional consideration and enactment. For any policy recommendations, please address the impacts you believe the relevant policy would have on:*
  - a. *Emissions of greenhouse gases and the rate and consequences of climate change; and*
  - b. *The effects on the U.S. economy, consumer prices, and jobs.*

The issues surrounding global climate change policy are serious and must be addressed. An improper or hasty resolution of this debate could have extreme implications for America's oil and natural gas producers and for the entire nation. IPAA believes that science must serve as the foundation for global climate policymaking; economic and social impacts must be addressed; and, the role of American oil and natural gas production must be recognized in any policy actions.

A number of key issues must be addressed as global climate policy actions are developed. First, energy is essential to a strong economy. The United States consumes about 23 percent of the world's energy, but it also produces about 22 percent of the world's gross domestic product. The reality that this link exists must be reflected in any policy actions.

Second, global action is necessary. A key flaw in the Kyoto Protocol was the absence of nations that represented substantial current – and projected future – emissions of greenhouse gases (GHG). The United States economy, the United States worker should not be expected to absorb the economic consequences of emissions regulations merely to see other countries benefit at America's expense. It would be unreasonable to require Americans to sacrifice without an expectation that at least the 15 largest GHG emitting countries are all participating in an international effort.

Third, global climate initiatives and America's energy security are inextricably linked. Oil and natural gas supply about 65 percent of America's energy and will continue to be a major contributor for the foreseeable future. Over 60 percent of oil and an increasing percentage of natural gas are imported. Many foreign oil producing countries – Venezuela, Iran, Iraq – raise questions about the certainty of future supply into the global, as well as the United States, market. Russia and Qatar have raised issues regarding forming an OPEC-like organization for natural gas. No global climate program should result in disincentives – or worse, constraints – on American oil and natural gas production that would have the effect of increasing our foreign dependence. American production should not be pitted against unfettered production in other countries. For example, if an international program included the top 15 GHG emitting countries, only one OPEC country (Indonesia) would be included. In particular, America's marginal oil wells are the most economically sensitive to increased costs. Over 80 percent of America's oil wells are marginal wells – producing less than 15 barrels per day. Yet, these wells produce 50 percent of the amount of crude oil that is imported from Saudi Arabia. Marginal wells are unique to the United States; other countries shut down these small operations. Once shut down, they will never be opened again – it is too costly.

Fourth, climate change proposals inevitably compel greater demand for natural gas. No climate change approach should be adopted unless it includes mechanisms to assure access to American natural gas. Natural gas has been the fuel of choice for new electricity generation. It is essential

for the production of biofuels both as a fuel and a component of fertilizers. It is the feedstock or the process heating source for the manufacture of energy conservation materials, energy efficient products and alternative energy technologies. Abundant natural gas supplies underlie America's land. But, today, much of it is off limits in America's offshore or severely limited in America's intermountain west. The federal regulatory and permitting system must be structured to assure that any commitment to a climate change initiative is feasible.

Fifth, no climate change policy action should discard the question of science. Too often, recent arguments for action discard the uncertainties of today's understanding of global climate science. Global climate science is an emerging field, one that changes as the tools to model it improve. There needs to be a continuing commitment to improve the capabilities of this science and to use it in developing policy.

The following presents an approach for addressing the global climate change issue:

1. The President should be authorized to initiate negotiations with an international group of GHG emitting countries if the Council on Environmental Quality with the concurrence of the Administrator of the Environmental Protection Agency and the Secretary of Commerce determines that the scientific information on global climate justifies international actions to mitigate GHG emissions.
2. The President shall submit to the Senate an international agreement for its approval if –
  - a. The agreement includes at least the 15 largest GHG emitting countries with a structure that allows for the verification of reduction strategies by each country;
  - b. The Secretary of Energy certifies that an action plan for the United States would not adversely affect American oil and natural gas production while benefiting foreign oil and natural gas production: and,
  - c. The President simultaneously submits an action plan, including proposed legislation, to assure that American natural gas can be accessed to meet the increased natural gas demand required by the negotiated agreement.
2. *One particular policy option that has received a substantial amount of attention and analysis is “cap-and-trade.” Please answer the following question regarding the potential enactment of a cap-and- trade policy:*
  - a.
  - b.
  - c. *Should the program’s requirements be imposed upstream, downstream, or some combination thereof?*

IPAA is concerned about the use of terms in global climate legislation compared to typical use of the terms in the context of the oil and natural gas industry. In the context of the oil and natural gas industry, the term “upstream” typically refers to that component of the industry before the oil refining component or the natural gas pipeline component. That is, the part of the industry represented by IPAA – the exploration and production (E&P) of oil and natural gas. In the context of climate cap-and-trade proposals, “upstream” seems to refer, in the oil context, to the creation of fuels – gasoline, diesel, heating oil, etc. – and, in the natural gas context, to the processing of natural gas. IPAA does not believe that it is logical to apply cap-and-trade

requirements to E&P operations. First, E&P facilities are individually small generators of greenhouse gases. Second, there are roughly 500,000 oil wells and 360,000 natural gas wells in the United States. This combination would mean that the cap-and-trade program would have to deal with 860,000 operations – a huge management burden. At the same time, the emissions effects at each of those facilities would be small. But, if the cap-and-trade requirements are costly, they could result in the loss of the marginal operations in the industry – about 400,000 oil wells and about 260,000 natural gas wells. However, these wells represent about 20 percent of American oil production and 10 percent of American natural gas production. The United States cannot afford to sacrifice this important component of its energy supply.

3.

4. *How should potential mandatory domestic requirements be integrated with future obligations the United States may assume under the 1992 United Nations Framework Convention on Climate Change? In particular, how should any U.S. domestic regime be timed relative to any international obligations? Should adoption of mandatory domestic requirements be conditioned upon assumption of specific responsibilities by developing nations?*

Global action is essential. A key flaw in the Kyoto Protocol was the absence of nations that represented substantial current – and projected future – emissions of greenhouse gases (GHG). The United States economy, the United States worker should not be expected to absorb the economic consequences of emissions regulations merely to see other countries benefit at America's expense. It would be unreasonable to require Americans to sacrifice without an expectation that at least the 15 largest GHG emitting countries are all participating in an international effort.

5. *What, if any, steps have your organization's members or its individual members taken to reduce their greenhouse gas emissions? Which of these have been voluntary in nature? If any actions have been taken in response to mandatory requirements, please explain which authority (State, Federal, or international) compelled them?*

Some of IPAA's members have voluntarily participated in programs like EPA's Natural Gas STAR program that implement new technologies to reduce natural gas losses from E&P facilities. Other members operate outside the United States and have become part of climate efforts in those countries. California producers are now coping with the requirements of California's new law.

In a broader context, independent producers are the primary developers of American coal bed methane. The production of coal bed methane not only provides the United States with an important part of its energy supply, its production means that this methane will not be released to the atmosphere during the coal mining process.

Looking forward, carbon dioxide has been used as an enhanced oil recovery technology with particular success in the Permian Basin. In 2006, the Department of Energy identified 10 basins in the United States where carbon dioxide enhanced oil recovery could help produce American oil that currently stranded ([http://www.fe.doe.gov/programs/oilgas/eor/Ten\\_Basin-Oriented\\_CO2-EOR\\_Assessments.html](http://www.fe.doe.gov/programs/oilgas/eor/Ten_Basin-Oriented_CO2-EOR_Assessments.html)). While there has been considerable discussion of sequestering carbon dioxide, its use as an enhanced oil recovery technology would result in increased energy production.